

RURAL WATER DISTRICT NO. 5
CRAWFORD COUNTY, KANSAS

FINANCIAL STATEMENTS
and
SUPPLEMENTARY INFORMATION
with
INDEPENDENT AUDITORS' REPORT

December 31, 2017 and 2016

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Jennifer L. Eichinger, CPA, LLC
Certified Public Accountant
Parsons, Kansas

INDEPENDENT AUDITORS' REPORT

Board of Directors
Rural Water District No. 5
Crawford County, Kansas

Report on the Financial Statements

We have audited the accompanying financial statements of the Rural Water District No. 5, Crawford County, Kansas which are comprised of the statement of net position as of December 31, 2017 and 2016, and the related statement of activities and change in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITORS' REPORT (continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Rural Water District No. 5, Crawford County, Kansas as of December 31, 2017 and 2016, and the change in net position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of Rural Water District No. 5, Crawford County, Kansas as a whole. The accompanying supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of Rural Water District No. 5, Crawford County, Kansas. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Matters

The management of Rural Water District No. 5, Crawford County, Kansas, has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Jennifer L. Eichinger, CPA, LLC

Parsons, Kansas
February 22, 2018

Rural Water District No. 5
Crawford County, Kansas

Statements of Net Position
December 31, 2017 and 2016

<u>Assets</u>	2017	2016
Current assets:		
Cash and cash equivalents (Notes 1 and 2)	\$ 333,147	\$ 317,045
Certificates of deposit (Notes 2 and 3)	214,890	214,041
Accounts receivable (Note 1)	26,375	26,855
Other receivable	15,090	- 0 -
Interest receivable	214	420
Prepaid expenses	995	995
Total current assets	<u>590,711</u>	<u>559,356</u>
Property, plant and equipment	2,443,763	2,359,259
Less accumulated depreciation	<u>1,622,592</u>	<u>1,559,709</u>
Net property, plant and equipment (Notes 1 and 4)	<u>821,171</u>	<u>799,550</u>
Other assets:		
Loan costs, net (Note 6)	1,480	1,842
Loan reserve account (Notes 5 and 7)	<u>57,965</u>	<u>57,965</u>
Total other assets	<u>59,445</u>	<u>59,807</u>
Total assets	<u><u>\$ 1,471,327</u></u>	<u><u>\$ 1,418,713</u></u>
<u>Liabilities</u>		
Current liabilities:		
Current portion of long-term debt (Note 5)	\$ 33,928	\$ 32,531
Accounts payable	33,249	8,484
Accrued expenses	<u>4,965</u>	<u>5,530</u>
Total current liabilities	<u>72,142</u>	<u>46,545</u>
Long-term debt (Notes 5 and 7)	<u>110,781</u>	<u>144,709</u>
Total liabilities	<u>182,923</u>	<u>191,254</u>
<u>Net Position</u>		
Invested in capital assets (Note 1)	676,462	622,309
Restricted for debt service (Note 1)	57,965	57,965
Unrestricted (Note 1)	<u>553,977</u>	<u>547,185</u>
Total net position	<u>1,288,404</u>	<u>1,227,459</u>
Total liabilities and net position	<u><u>\$ 1,471,327</u></u>	<u><u>\$ 1,418,713</u></u>

See accompanying independent auditors' report and accompanying notes to financial statements.

Rural Water District No. 5
Crawford County, Kansas

Statement 2

Statements of Activities and Changes in Net Position
For the Years Ended December 31, 2017 and 2016

	2017	2016
Operating revenues:		
Water sales	\$ 280,059	\$ 272,382
Installation reimbursements	20,479	9,415
Total operating revenues	<u>300,538</u>	<u>281,797</u>
Operating expenses:		
Salaries	52,756	52,158
Payroll taxes	4,088	4,042
Contract services (Note 8)	64,289	67,735
Operating supplies and maintenance	10,717	6,458
Water analysis	591	2,029
Chemicals	11,784	5,374
Depreciation	64,112	66,198
Insurance	7,974	7,640
Office supplies and postage	8,887	8,134
Professional fees	5,473	5,245
Utilities and telephone (Note 8)	51,210	46,496
Water purchased	311	309
Water protection fee	3,152	3,118
Other	4,116	4,121
Total operating expenses	<u>289,460</u>	<u>279,057</u>
Net operating revenues	<u>11,078</u>	<u>2,740</u>
Nonoperating revenues (expenses):		
Interest revenue	875	1,130
Benefit units	16,000	14,000
State reimbursements	36,763	-0-
Other income	2,661	-0-
Amortization of loan costs	(362)	(362)
Interest expense	(6,070)	(7,321)
Net nonoperating revenues (expenses)	<u>49,867</u>	<u>7,447</u>
Changes in net position	60,945	10,187
Net position:		
Beginning of year	1,227,459	1,217,272
End of year	<u>\$ 1,288,404</u>	<u>\$ 1,227,459</u>

See accompanying independent auditors' report and accompanying notes to financial statements.

Rural Water District No. 5
Crawford County, Kansas

Statements of Cash Flows
For the Years Ended December 31, 2017 and 2016

	2016	2016
Cash flows from operating activities:		
Sales	\$ 301,018	\$ 283,161
Payments to suppliers	(111,324)	(122,074)
Payments for utilities and telephone	(51,210)	(46,496)
Payments to employees	(52,756)	(52,158)
Payments for benefits	(4,078)	(3,984)
Net cash provided by operating activities	<u>81,650</u>	<u>58,449</u>
Cash flows from capital and related financing activities:		
Purchases of capital assets	(66,985)	(37,725)
Principal paid on capital debt	(32,531)	(31,191)
Interest paid on capital debt and leases	(6,598)	(7,828)
Net cash used by capital financing activities	<u>(106,114)</u>	<u>(76,744)</u>
Cash flows from investing activities:		
Proceeds from benefit unit sales	16,000	14,000
Interest on investments	1,081	964
Other income	24,334	-0-
Purchase of certificates of deposit	(849)	(786)
Net cash provided by investing activities	<u>40,566</u>	<u>14,178</u>
Net increase (decrease) in cash	16,102	(4,117)
Cash - beginning of the year	317,045	321,162
Cash - end of year	<u>\$ 333,147</u>	<u>\$ 317,045</u>
Reconciliation of net operating revenues to net cash provided by operating activities:		
Net operating revenues	\$ 11,078	\$ 2,740
Adjustments to reconcile net operating revenues to net cash provided by operating activities:		
Depreciation	64,112	66,198
Changes in assets and liabilities:		
Prepaid expenses	-0-	(100)
Receivables, net	480	1,364
Taxes withheld and service fees	(37)	12
Accounts payable	6,017	(11,765)
Net cash provided by operating activities	<u>\$ 81,650</u>	<u>\$ 58,449</u>

See accompanying independent auditors' report and accompanying notes to financial statements.

Rural Water District No. 5
Crawford County, Kansas

Notes to Financial Statements

December 31, 2017 and 2016

(1) Summary of Significant Accounting Policies

Nature of Organization

Rural Water District No. 5, Crawford County, Kansas (the District) is principally engaged in the retail sale of water.

Fund Description

The accounts of the District are organized on the basis of a proprietary fund type, specifically an enterprise fund. This type of fund accounts for operations that are financed and operated in a manner similar to private business enterprises--where the stated intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges--or where periodic determination of revenues earned, expenses incurred, and/or net income is deemed appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Basis of Accounting

The District's basic financial statements are presented on the full accrual basis of accounting and conform to accounting principles generally accepted in the United States of America, which recognizes receivables when water is sold rather than when cash is received and recognizes expenses when they are incurred rather than when they are paid.

Net Position

Net position comprises the various net earnings from operating income, nonoperating revenues and expenses, capital contributions, and special items. Net position is classified in the following three components:

Invested in capital assets, net of related debt - This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds at year-end, that portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

Restricted net position - This component of net position consists of constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position - This component of net position consists of net position that does not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Financial Statement Presentation

For financial reporting purposes, the District is considered a special-purpose government engaged only in business-type activities.

Rural Water District No. 5
Crawford County, Kansas

Notes to Financial Statements

December 31, 2017 and 2016

(1) Summary of Significant Accounting Policies (continued)

Accounts Receivable

The District records water revenues when collected during the year with an adjustment at year end to record accounts receivable as of December 31. The District reviews the outstanding receivables on a regular basis for collectability. An allowance for doubtful accounts was considered unnecessary at each respective year end.

Concentration of Credit Risk

Financial instruments which potentially subject the District to concentration of credit risk consist primarily of cash and cash equivalents, certificates of deposit and accounts receivable. The District places its cash with high credit quality financial institutions. Accounts receivable are primarily from high quality customers, substantially all of whom are agriculture related.

Property, Plant and Equipment and Depreciation

Property, plant and equipment are stated at cost and are being depreciated on the straight-line method over the estimated useful lives of the respective assets.

Maintenance, repairs and minor renewals are charged to operations as incurred. Renewals and betterments are capitalized as additions to the appropriate asset accounts.

The range of estimated useful lives for property, plant and equipment is as follows:

Water distribution system	20-50 years
All other	5-10 years

Operating Revenues and Expenses

Operating revenues and expenses consist of those revenues that result from the ongoing principal operations of the District. Operating revenues consist primarily of charges for water sales. Nonoperating revenues and expenses consist of those revenues and expenses that are related to financing and investing types of activities and result from nonexchange transactions or ancillary activities. When an expense is incurred for purposes for which there are both restricted and unrestricted net assets available, it is the District's policy to apply those expenses to restricted net assets to the extent such are available and then to unrestricted net position.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Management does not believe that any differences would materially affect the District's financial position or results.

Cash and Cash Equivalents

For the purpose of the statements of cash flows, the District considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents includes checking accounts with two banks.

Rural Water District No. 5
Crawford County, Kansas

Notes to Financial Statements

December 31, 2017 and 2016

(1) Summary of Significant Accounting Policies (continued)

Impairment of Long-Lived Assets

Long-lived assets, including property, plant and equipment, and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated future net cash flows (undiscounted and without interest charges) expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. There was no impairment on long-lived assets at December 31, 2017 or 2016.

Income Taxes

The District is a not-for-profit quasi-municipal corporation for income tax purposes and is, thus, exempt from Federal and state income taxes. Accordingly, no provision for income taxes has been reported on these financial statements.

(2) Deposits

At December 31, 2017 and 2016, the carrying amounts of the District's deposits were \$548,037 and \$531,086, respectively, and the aggregate banks' account balances were \$557,238 and \$531,118, respectively. The differences, if any, between the carrying amounts and the aggregate banks' balances were outstanding checks. Bank balances of \$397,608 and \$391,488 were covered by FDIC insurance at December 31, 2017 and 2016.

At December 31, 2017, \$159,629 was unsecured which is a violation of Kansas Statutes 9-1402 and 9-1405.

(3) Certificates of Deposit

At December 31, 2017 and 2016, the District had \$214,890 and \$214,041 in certificates of deposit. As of December 31, 2017, these balances consist of three certificates of deposit with varying interest rates ranging from 0.15% to 0.65%. One of the certificates of deposit at December 31, 2017, has a maturity date of twenty-seven months, which exceeds that allowable by Kansas Statute 12-1675.

(4) Property, Plant and Equipment

A summary of property, plant and equipment is as follows:

<u>Cost</u>	<u>Balance</u> <u>12-31-16</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>12-31-17</u>
Water lines	\$ 1,071,180	\$ 68,343	\$ -0-	\$ 1,139,523
Building and machinery	917,395	-0-	-0-	917,395
Pumps	204,319	2,840	-0-	207,159
Standpipe	29,196	-0-	-0-	29,196
Wells	115,889	-0-	-0-	115,889
Office equipment	1,780	14,550	(1,229)	15,101
Land	19,500	-0-	-0-	19,500
	2,359,259	85,733	(1,229)	2,443,763
Less accumulated depreciation	1,559,709	64,112	1,229	1,622,592
	<u>\$ 799,550</u>	<u>\$ 21,621</u>	<u>\$ -0-</u>	<u>\$ 821,171</u>

Rural Water District No. 5
Crawford County, Kansas

Notes to Financial Statements

December 31, 2017 and 2016

(5) Long-Term Debt

The District entered into a loan agreement with the Kansas Department of Health and Environment (KDHE) effective as of August 10, 1999 and last amended on October 20, 2005. The loan has an interest rate of 4.25%. The proceeds of the loan were used to finance Kansas Public Water Supply Loan Fund Project No. 2032. This project was the construction of a new water plant. The loan is secured by revenues generated by the District. The loan balance as of December 31, 2017 and 2016 was \$144,709 and \$177,240, respectively. A 10% loan reserve was funded from the proceeds. The loan reserve balance was \$57,965 as of December 31, 2017 and 2016. The loan is scheduled for semi-annual payments of \$19,861 each February and August through August 2021. The scheduled maturities for this loan as of December 31, 2017 are as follows:

	<u>Principal</u>	<u>Interest</u>
2018	\$ 33,928	\$ 5,316
2019	35,385	3,979
2020	36,905	2,584
2021	<u>38,491</u>	<u>1,130</u>
	<u>\$ 144,709</u>	<u>\$ 13,009</u>

(6) Loan Costs

Loan costs are being amortized over the life of the loan (20 years). This balance is reported net of accumulated amortization of \$5,766 and \$5,404 as of December 31, 2017 and 2016, respectively.

(7) Compliance with Loan Covenants

The District's loan with KDHE contains the following covenants:

- a) There shall be transferred to the principal and interest account the pro-rata amount necessary to pay the next scheduled debt service payment.
- b) There shall be transferred to the reserve account \$57,965.

As of December 31, 2017, the required and actual balances for covenants a and b were as follows:

	<u>Required</u>	<u>Actual</u>
Principal and interest account	\$ 19,861	\$ - 0 -
Reserve account	57,965	57,965

The principal and interest account requirement was not met due to the fact that the District has yet to establish a separate principal and interest account as required. The District, however, does have \$548,037 in cash and certificates of deposit as of December 31, 2017, which could be used to fund such an account and meet the requirement.

Rural Water District No. 5
Crawford County, Kansas

Notes to Financial Statements

December 31, 2017 and 2016

(7) Compliance with Loan Covenants (continued)

- c) The District shall charge fees sufficient to pay the cost of operations, maintenance, improvements and debt service as well as maintain reserves. For the year ended December 31, 2017, the District met this requirement.
- d) The loan also requires the District to produce net revenues before depreciation and interest expense equal to one hundred twenty-five percent (125%) of the current year's principal and interest requirements. For the year ended December 31, 2017, the District met this requirement.

Debt service for December 31, 2017	
2017 interest, principal and service	
fees on loan payable	\$ 39,722
Percentage	<u>125%</u>
	<u>49,653</u>
Net income	60,945
Add:	
Depreciation expense	64,112
Interest expense	<u>6,070</u>
Available for debt service	<u>131,127</u>
Excess	<u>\$ 81,474</u>

(8) Major Vendors

The District had two major vendors which accounted for approximately 42% of net operating expenses during the year ended December 31, 2017. One vendor supplied utility services to the District, and the other was the District's maintenance provider.

The District had two major vendors which accounted for approximately 41% of net operating expenses during the year ended December 31, 2016. One vendor supplied utility services to the District and the other was the District's maintenance provider.

(9) Subsequent Event

The District did not have any reportable subsequent events through February 19, 2018, which is the date the financial statements were available to be issued, for events requiring recognition or disclosure in the financial statements for the year ended December 31, 2017.

SUPPLEMENTARY INFORMATION

Rural Water District No. 5
Crawford County, Kansas

Officers and Directors

December 31, 2017

<u>Name</u>	<u>Expiration</u>	<u>Title</u>
George Vanderpool	2018	Chairman
Kenneth Burton	2018	Vice-Chairman
Richard Weber	2019	Secretary
Shaun Jewell	2019	Treasurer
Nacoma Oehme	2020	Director